

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Dickinson County Library	County Dickinson
Audit Date 12/31/2004	Opinion Date 05/20/2005	Date Accountant Report Submitted to State: 06/24/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)
Fleury, Singler & Company, P.C.

Street Address
301 Stephenson Avenue PO Box 608

City
Iron Mountain

State
MI

ZIP
49801

Accountant Signature

Financial Statements

DICKINSON COUNTY LIBRARY

FINANCIAL REPORT

December 31, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dickinson County Library
Iron Mountain, Michigan

We have audited the accompanying basic financial statements of the **DICKINSON COUNTY LIBRARY** as of December 31, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the **DICKINSON COUNTY LIBRARY'S** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the **DICKINSON COUNTY LIBRARY** at December 31, 2004, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule and other information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As discussed in Note A, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. The General Fund reports information on the modified accrual basis of accounting, as well as the full accrual basis of accounting.



Certified Public Accountants

May 20, 2005

DICKINSON COUNTY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The Basic Financial Statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Library's operations on a full accrual basis which provides both long and short-term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information in a condensed format:

Current assets	\$ 1,221,607
Capital assets	<u>742,884</u>
Total assets	1,964,491
Long-term liabilities	634,345
Other liabilities	<u>682,348</u>
Total liabilities	1,316,693
Net Assets	
Invested in capital assets	742,884
Restricted for donor restricted purposes	21,066
Unrestricted	<u>(116,152)</u>
Total net assets	<u>647,798</u>
Revenue	
Property taxes	580,786
Other	<u>294,024</u>
Total revenue	874,810
Expenses - Library services	<u>812,365</u>
Change in net assets	<u>\$ 62,445</u>

In future years, when prior information is available, a comparative analysis of government wide data will be presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Library as a Whole

- The Library is reporting financial statements this year that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense. This includes all Library materials which were previously unrecorded.
- As a result of this change and the adjustments to capital assets and to record compensated absences and post-retirement benefits payable, the Library reports net assets of \$647,798 this year on the full accrual basis, as compared to fund balances of \$539,259 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2004, total property tax collections were \$580,786. This represents approximately 66 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2004, this expenditure was \$535,814, representing 66 percent of the Library's total expenditures.
- Depreciation at \$103,087 is the second largest overall expenditure of the Library, representing 13 percent of the Library's total expenditures.
- Total expenditures for the entire year under the full accrual method of accounting were \$812,365.
- The Library's conversion to meet GASB 34 standards, which includes capitalization of Library owned assets and associated depreciation expense, as well as the increases in compensated absences and post-retirement benefits payable, is reflected in the Statement of Activities on page 8 of this financial report.

The Library's Fund

Our analysis of the Library's General Fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Library's only governmental fund is the General Fund.

The fund balance of the General Fund increased by \$10,108 for the year. This represents unspent revenue greater than expenses.

A summary of the Library's fiduciary funds is presented as other information in this report.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in fines and forfeitures, interest income, materials, maintenance and utilities, North Dickinson Branch expenses, and Norway renovation.

The revenue budget was increased during the year due to an increase in penal fine income and increased interest rates resulting in an increase in interest income.

This increased revenue allowed for an increase in the expenditure for books and materials as more funds were available to purchase these items.

The maintenance budget was increased during the year as a result of three major building maintenance projects that became necessary during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Library Budgetary Highlights (continued)

The North Dickinson Branch budget was decreased during the year as the Library learned the actual expenses that would be required to operate this newly opened branch were less than projected.

Although the Norway renovation was planned, it was not given a line item in the original expenditures budget, but was instead included as a Board designated item. It was added to the expenditures budget later in the year when the renovation project began.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$742,884 invested in buildings, furniture and equipment, and books and materials. In 2004, the Library added approximately \$78,000 in new items consisting of books, various audio/visual materials, and enhancement of the music collection. The Norway renovation project consisted of approximately \$14,000 in building improvements and \$30,000 in furnishings and equipment. The remaining capital asset additions consisted of approximately \$7,850 in equipment for the Main Library.

The Library carries no long-term debt other than compensated absences and post-retirement benefits.

Next Year's Millage Rates

In August of 2004, the voters of the district approved a .9 mill tax for a five-year period. This represented a renewal equal to the previous millage, which expired December 31, 2004. Based on the current taxable value of property in the Library's district, this will generate \$658,719 in tax revenue for the year ending December 31, 2005.

The notes to financial statements are an integral part of this statement.

DICKINSON COUNTY LIBRARY**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**

December 31, 2004

	General Fund- Modified Accrual Basis	Adjustments (Note H)	Statement of Net Assets- Full Accrual Basis
Assets			
Cash	\$ 125	\$ -	\$ 125
Taxes receivable	652,219	-	652,219
Prepaid insurance	5,170	-	5,170
Investments	564,093	-	564,093
Capital assets	-	742,884	742,884
Total assets	1,221,607	742,884	1,964,491
Liabilities			
Accounts payable	23,850	-	23,850
Accrued liabilities	6,279	-	6,279
Deferred revenue	652,219	-	652,219
Long-term liabilities			
Vested sick leave, vacation and comp time payable	-	13,697	13,697
Post-retirement benefits			
Due within one year	-	22,679	22,679
Due after one year	-	597,969	597,969
Total liabilities	682,348	634,345	1,316,693
Fund Balance/Net Assets			
Fund balance			
Reserved for			
Computer purchases	21,066	(21,066)	-
Unreserved	296,766	(296,766)	-
Designated for			
Vested sick leave, vacation and comp time	9,711	(9,711)	-
Building improvements	105,000	(105,000)	-
Operating expenses	350,000	(350,000)	-
Undesignated	(243,284)	243,284	-
Total fund balance	539,259	(539,259)	-
Total liabilities and fund balance	\$ 1,221,607		
Net assets			
Investment in capital assets		742,884	742,884
Restricted for donor restricted purposes		21,066	21,066
Unrestricted		(116,152)	(116,152)
Total net assets		\$ 647,798	\$ 647,798

The notes to financial statements are an integral part of this statement.

DICKINSON COUNTY LIBRARY**STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE - STATEMENT OF ACTIVITIES**
Year ended December 31, 2004

	General Fund - Modified Accrual Basis	Adjustments (Note H)	Statement of Activities - Full Accrual Basis
Revenue			
Property taxes	\$ 580,786	\$ -	\$ 580,786
Other taxes	32,946	-	32,946
State aid	32,868	-	32,868
Fines and forfeits	158,052	-	158,052
Charges for services	14,193	-	14,193
Interest income	23,880	-	23,880
Donations	18,750	-	18,750
Other revenue	13,335	-	13,335
Total revenue	874,810	-	874,810
Expenditures			
Salaries and benefits	562,259	(26,445)	535,814
Materials	81,104	(76,043)	5,061
Supplies	26,311	(5,550)	20,761
Professional services	12,540	-	12,540
Conferences, workshops and travel	4,012	-	4,012
Mid-Peninsula state aid	11,966	-	11,966
Maintenance and utilities	76,196	(2,300)	73,896
Insurance	17,052	-	17,052
Automation project	16,073	-	16,073
North Dickinson Branch	6,157	(1,777)	4,380
Norway renovation	44,758	(43,309)	1,449
Other expenses	6,274	-	6,274
Depreciation	-	103,087	103,087
Total expenditures	864,702	(52,337)	812,365
Revenue over (under) expenditures/ change in net assets	10,108	52,337	62,445
Fund balance/net assets - Beginning of year	529,151	56,202	585,353
Fund balance/net assets - End of year	\$ 539,259	\$ 108,539	\$ 647,798

The notes to financial statements are an integral part of this statement.

DICKINSON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **DICKINSON COUNTY LIBRARY** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- Capital assets in the full accrual column of the statement of net assets includes assets totaling \$742,884, previously unaccounted for by the Library.
- The full accrual column also includes compensated absences of \$13,697 and post-retirement benefits of \$620,648, previously reported in the General Long-Term Debt Account Group.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting entity

The **DICKINSON COUNTY LIBRARY** was formed to provide reading and related materials to residents of Dickinson County, Michigan. It currently operates in three locations, a main library and two smaller branches. The main location is in Iron Mountain, Michigan and the branches are located in Norway, Michigan and in the North Dickinson School building in Felch, Michigan. The Library is a part of the County of Dickinson and the majority of its revenues are deposited with the County Treasurer. The Library is governed by a Board of Trustees who oversees its operations. The Library Board is appointed by the Dickinson County Board of Commissioners. There are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library has one governmental fund, the General Fund, which is the Library's primary operating fund.

The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period by the county treasurer. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and post retirement benefits are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2005 expenditures.

In addition to presenting modified accrual information for the General Fund, the statements combine all activities and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – investment in capital assets, restricted net assets and unrestricted net assets.

The Library trust funds are presented as supplementary information.

Financial statement amounts

Cash - Cash includes cash on hand, demand deposits, and savings.

Receivables - All property taxes receivable are shown net of an allowance for uncollectible amounts of \$6,500. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1 of the following year.

Prepaid expenses - The prepaid expenses reported on the balance sheet represent payments made in advance for 2005 expenditures.

Investments - Investments are reported at cost, which approximates fair value. Investments consist entirely of non-risk categorized money market accounts (General Fund) and certificates of deposit (Library Trust Funds).

Capital assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	25-50 years
Furniture and equipment	5-10 years
Library books and materials	7 years

The Library has a collection of artwork and artifacts, donated by area patrons, presented for public exhibition and education that is being preserved for future generations. The Library has no plans to dispose of this collection. The collection is not capitalized or depreciated as part of capital assets.

Compensated absences - Included in the employment agreement for the Library's personnel are allowances for sick leave and vacation. Each employee earns sick leave at the rate of one day per month with 120 days maximum accumulation. Upon MERS retirement, each vested employee receives compensation equal to ½ of the unused sick leave up to a maximum of 100 days. Such payout may be taken as cash or time off at the option of the employee. Vacation pay is earned at amounts scheduled in the agreement with a maximum accumulation from the previous year of 7 days. Comp time is earned by employees who have worked overtime and have chosen to receive additional time off rather than overtime pay. All terminated employees are entitled to compensation for unused vacation and comp time. All vacation, sick, and comp time payable has been accrued and reported as a liability in the General Fund.

Property taxes - Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. The Library's 2003 tax is collectible on February 14, 2004, and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

Deferred revenue - Income is recognized as it is measurable and available. Payments received by the local taxing authorities for taxes levied for 2004 and collected within 60 days of the end of fiscal 2004 by the local taxing authorities, but not made available to the Library until April of 2005 are considered deferred revenue as they are not yet remitted to the county and were not paid to the Library within 60 days of the end of the fiscal year.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement amounts (continued)

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates.

NOTE B - DEPOSITS

Michigan compiled law section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library's deposits at December 31, 2004 are included on the balance sheet as investments in the amount of \$564,093. Of that amount \$200,000 was covered by federal depository insurance and \$364,093 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution. Only those institutions with an acceptable risk level are used as depositories.

NOTE C - CAPITAL ASSETS

A summary of the changes in capital assets follows:

Capital Assets Being Depreciated	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Assets not being depreciated				
Land	\$ 48,496	\$ -	\$ -	\$ 48,496
Other capital assets				
Buildings and improvements	581,177	13,760	-	594,937
Furniture and equipment	215,725	37,400	-	253,125
Library books and materials	463,047	77,819	-	540,866
Totals	1,308,445	128,979	-	1,437,424
Accumulated depreciation	(591,453)	(103,087)	-	(694,540)
Net book value	\$ 716,992	\$ 25,892	\$ -	\$ 742,884

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - LONG-TERM DEBT

A summary of debt outstanding at the Library is as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Compensated absences	\$ 11,961	\$ 1,736	\$ -	\$ 13,697
Post retirement benefits	648,829	-	28,181	620,648
Totals	\$ 660,790	\$ 1,736	\$ 28,181	\$ 634,345

The compensated absences represent the estimated liability to be paid employees under the Library's vacation, sick and comp time policies. The Library estimates that new compensated absences time will accrue at a rate approximately equal to that used, and therefore, the outstanding balance at December 31, 2004 represents a long-term liability.

The beginning balance of post retirement benefits was increased by \$306,261 when the liability for post retirement benefits was expanded to include employees who have not yet retired, but were hired prior to January 1st, 1995, for whom a contractual obligation to be paid post retirement benefits upon retirement exists.

NOTE E - BUDGET INFORMATION

The annual budget is prepared by Library management and adopted by the Library Board of Trustees. Subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on a functional basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library Board is included in the required supplementary information.

NOTE F - RISK MANAGEMENT

The Library is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Library belongs to the Michigan Municipal Risk Management Authority which is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships, and special purpose governments. The Michigan Municipal Risk Management Authority is a separate legal and administrative entity.

The Library is responsible for paying all losses including damages, loss adjustment expenses and defense costs for each occurrence that falls within the Library self-insured retention (SIR).

If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Library. If for any reason, the Authority's resources available to pay losses are depleted, the payment of all unpaid losses of the Library is the sole obligation of the Library. After the Library has paid the SIR, the Authority will be responsible for paying losses including damages, loss adjustment expense and defense costs. During 2004, claims did not exceed the self-insured retentions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - EMPLOYEE RETIREMENT BENEFITS

The Library is obligated under its union contract to provide employees who were hired prior to January 1, 1995 and retire under the MERS system, health insurance coverage upon their retirement. A liability of \$620,648 has been included in the General Fund liabilities to reflect the present value of the monthly health insurance benefits for the six currently retired employees and the seven active employees whose contracts include post-retirement health coverage (calculated using current insurance costs).

Thirteen employees of the Library are included in the retirement plan of the County of Dickinson which has its plan with the Michigan Employees' Retirement System (MERS). During the year ended December 31, 2004, employer contributions totaling \$50,187 were made. In addition to the employer contributions, all employees of the Library participating in the MERS retirement plan contribute 2% of their gross wages to help offset the total plan expenses. The total plan expenses are determined by an actuarial valuation of the plan made by MERS. For the year ending December 31, 2004, this actuarial valuation resulted in an employer funding rate of 14.74%.

MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All employees working over 1,040 hours per year are eligible to participate in the system. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1951, MSA 5.333(a); MCLA 46.12(a), as amended, by the State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

The **DICKINSON COUNTY LIBRARY** has adopted benefit B-3, which provides for an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 2.25% of a member's final five year average compensation with a maximum benefit of 80% of a member's final five year average compensation. The plan also provides for full benefits after the age of 60 to employee's with 10 years of credited service or after the age of 50 with 25 years of credited service.

The **DICKINSON COUNTY LIBRARY** has also adopted post-retirement adjustment benefit E-2 which provides automatic 2.5% annual non-compounded benefit increases to retirees and their beneficiaries who retired on or after the effective date of benefit E-2. Increase is limited to increases in the consumers' price index.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The unfunded actuarial accrued liability is amortized by level percent of payroll contributions over a period of years.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 and GASB 27 Reporting Requirements

Since the plan includes all eligible Dickinson County employees, the specific reporting requirements required under GASB 25 and 27 are not available for the Library alone. The information is reported in aggregate for all employees in the audit of Dickinson County and is available from the Dickinson County Controller's office, Dickinson County Courthouse, Iron Mountain, Michigan 49801.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total fund balance - modified accrual basis	\$ 539,259
Amounts reported in the Statement of Net Assets are different because	
Capital assets are not financial resources, and are not reported in the fund	742,884
Compensated absences are included as a liability	(13,697)
Post-retirement benefits are included as a liability	(620,648)
Net assets of General Fund - full accrual basis	<u>647,798</u>

Net changes in fund balances - modified accrual basis	10,108
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Amounts reported in the Statement of Activities are different because	
Capital outlays are reported as expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	52,936
Library books and materials	76,043
Depreciation	(103,087)
Increase in the accrual for compensated absences reported as an expenditure in the Statement of Activities, but not in the fund statement	(1,736)
Decrease in the accrual for post-retirement benefits reported as an expenditure in the Statement of Activities, but not in the fund statement	<u>28,181</u>
Changes in net assets of General Fund - full accrual basis	<u>\$ 62,445</u>

NOTE I - LABOR SUBJECT TO COLLECTIVE BARGAINING AGREEMENT

Most of the Library's employees are members of a local chapter of the American Federation of State, County and Municipal Employees, AFL-CIO. The current contract expired on December 31, 2004. Negotiations are ongoing as of the date of this report and an agreement is expected to be reached in the near future.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

DICKINSON COUNTY LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended December 31, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 583,272	\$ 580,786	\$ 580,786	\$ -
Other taxes	30,645	32,822	32,946	124
State aid	30,400	32,859	32,868	9
Fines and forfeits	130,000	158,052	158,052	-
Charges for services	15,000	14,193	14,193	-
Interest income	12,000	22,000	23,880	1,880
Donations	14,000	14,000	18,750	4,750
Other revenue	9,000	12,190	13,335	1,145
Total revenue	824,317	866,902	874,810	7,908
Expenditures				
Salaries and benefits	580,375	579,490	562,259	17,231
Materials	80,500	86,900	81,104	5,796
Supplies	28,050	28,817	26,311	2,506
Professional services	16,500	13,299	12,540	759
Conferences, workshops and travel	4,300	5,600	4,012	1,588
Mid-Peninsula state aid	10,200	11,966	11,966	-
Maintenance and utilities	70,150	79,523	76,196	3,327
Insurance	26,700	22,700	17,052	5,648
Automation project	15,000	16,075	16,073	2
North Dickinson Branch	11,785	6,200	6,157	43
Norway renovation	-	50,000	44,758	5,242
Other expenses	10,100	7,950	6,274	1,676
Total expenditures	853,660	908,520	864,702	43,818
Revenue over (under) expenditures/change in net assets	(29,343)	(41,618)	10,108	51,726
Fund Balance/Net Assets - Beginning of year	529,151	529,151	529,151	-
Fund Balance/Net Assets - End of year	\$ 499,808	\$ 487,533	\$ 539,259	\$ 51,726

**OTHER
INFORMATION**

DICKINSON COUNTY LIBRARY
STATEMENT OF FIDUCIARY NET ASSETS
December 31, 2004

Assets

Cash	\$ 1,780
Investments	<u>106,808</u>
Total assets	<u>108,588</u>

Net assets

Permanently endowed funds	77,788
Reserved in accordance with donor designations	<u>30,800</u>
Total net assets	<u>108,588</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year ended December 31, 2004

Additions

Contributions	1,200
Interest income	<u>2,498</u>
Total additions	3,698

Deductions

Operating transfers out	<u>1,644</u>
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Change in net assets	2,054
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Net assets - January 1, 2004	<u>106,534</u>
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Net assets - December 31, 2004	<u>\$ 108,588</u>
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May 20, 2005

Board of Trustees
Dickinson County Library
Iron Mountain, MI

In planning and performing our audit of the financial statements of the **DICKINSON COUNTY LIBRARY** for the year ended December 31, 2004, we considered the Library's internal control structure to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our audit found the Library to have excellent internal control over the majority of cash receipts and disbursements. However, during our audit we became aware of the following matters that will provide opportunities to strengthen the internal control and operating efficiency of the Library. This letter does not affect our report dated May 20, 2005, on the financial statements of the **DICKINSON COUNTY LIBRARY**.

SEGREGATION OF DUTIES

A weakness in internal control over the Library Trust Funds was noted in our management letter dated May 27, 2004. Several improvements were noted from the previous year. The administrative assistant no longer makes all decisions on investment of the trust funds and the finance committee has become more involved in the overall management of the funds. The deposit and record keeping duties have been divided between the administrative and clerical assistant. All of these changes have increased internal control over these funds.

GENERAL LEDGER SYSTEM

The Library's general ledger system is not yet fully integrated, however, progress has been made over the course of the last year. As stated in our prior year engagement letter, the use of a general ledger system, as opposed to the cash receipts/cash disbursements journal method of tracking financial activity, would provide a more complete and efficient control environment and increase operating efficiency. Emphasis should be placed on complete general ledger use for the subsequent fiscal year.

BOARD DESIGNATED FUND EQUITY

The Board has placed designations on the use of fund equity in excess of the amount available for designation. \$350,000 of the amount designated is to provide working capital for January through May, 2005, as property tax revenues will not be available until May of 2005. This resulted in a negative unrestricted fund balance of \$243,284 for the year ending December 31, 2004. However, it should be noted that the total unrestricted fund equity is a positive \$518,193.

HIRING OF A DIRECTOR

It was noted during our audit that the Library would be hiring a new director due to the resignation of the previous director. The hiring of a suitable replacement should be considered a priority for the board as the absence of someone in this oversight and management position creates weaknesses in the internal control system. The board or finance committee should perform needed oversight in the interim. The new director should be made aware of his or her role in the internal control system to enable the separation of the receipt, recording and reconciliation procedures to be restored as soon as practicable.

This report is intended solely for the information and use of the Board of Directors and management.

We wish to acknowledge the excellent cooperation we received from the staff of the **DICKINSON COUNTY LIBRARY**. If you have any questions or concerns, please feel free to contact us

Very truly yours,



Certified Public Accountants

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